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Speeches

U.S. Department of Agriculture • Office of Governmental and Public Affairs

Statement prepared for delivery by Secretary of Agriculture Bob Bergland, National Governors' Association, Denver, Colorado, Aug. 4, 1980.

WHY THE GRAIN SALE SUSPENSION SHOULD NOT BE LIFTED

A resolution under consideration by the National Governors' Association declares that "agricultural embargoes are ineffective, depress prices, cost the taxpayers billions of dollars, and jeopardize future sales of agricultural commodities" and calls for an end to the current partial suspension of grain sales to the Soviet Union and "action to prevent future interference with private sales of agricultural products to customers in foreign countries."

I respectfully urge the Association to reject this resolution because its premises are in error and its implementation would compromise the integrity and risk the security of our country.

The premises are in error because the suspension has been effective; was not the only, or even the primary, reason for depressed farm prices this spring; is not costing taxpayers "billions" of dollars and will not jeopardize future export sales.

To judge whether the grain sale suspension has been effective, we must bear in mind that this was a restrained action with a modest goal.

We did not impose a total embargo; we honored the base commitment in our five-year agreement with the Soviets to sell them at least 8 million tons of grain.

Our goal was to deliver a stinging rebuke to the Soviets for invading Afghanistan and to do so without starving the Russian people or slamming the door on full resumption of trade if and when the Kremlin came to its senses.

Specifically, the partial suspension of grain sales was aimed at exploiting an already tight feed and forage situation in the Soviet Union.

Soviet planners had hoped to overcome that situation by importing enough feed and food to raise the dietary levels of a people long denied those enjoyed not only in the West but in some of the Russian satellite

countries. By refusing to sell the Soviets two-thirds of the U.S. grain they wanted to buy, we hoped to frustrate their plans, exacerbate the frustrations of the Russian people, and embarrass and inconvenience the Soviet leadership.

Evidence of Effectiveness

Official Soviet statistics, Soviet press reports, and accounts by Western observers in Russia now clearly indicate that the relatively modest ambitions of the grain sale suspension are being realized.

The Soviet livestock industry has been set back substantially, and the effects will be felt for years to come.

The Soviets were denied about 10 percent of their feed grain requirements for the six-month period before they could draw on newly harvested 1980 feed supplies.

Total Soviet meat production for the first half of 1980 is 1.2 percent below the amount produced in the first half of 1979, even though the Soviets accelerated slaughter early in 1980 as a consequence of the grain sale suspension.

In June, beef production on the Soviet state and collective farms, which usually account for three-quarters of all USSR meat production, was 16 percent less than it was a year ago. Pork production was off 10 percent. Total meat production for the month was 11 percent less than for June of 1979.

For the first half of 1980, milk production on state and collective farms was 4 percent below the year-earlier level, and productivity per cow was off 5 percent for the same period.

Hog inventories on July 1 were 1.9 percent below what they were the same day a year before and are likely to remain below year-earlier levels for the rest of 1980.

The rate of growth in Soviet cattle and poultry inventories appears to have been checked. Neither cattle nor poultry numbers are increasing at more than a fraction of the gains registered in the two previous years.

Average slaughter weights for hogs and cattle were considerably lighter in the first half of this year than they were in the first half of 1979.

Though the Soviets are expected to import a record amount of meat in 1980, their per capita meat consumption will fall far short of the goal that was set for this year back in 1975.

Moreover, the chaotic food distribution system within the Soviet Union sharply increases the impact of food shortages in certain areas. Moscow, Leningrad, and important factory communities fare well under the distribution system, while many other areas are sacrificed to this kind of favoritism.

As Fortune magazine noted this month, "Thus an overall reduction of 1 percent to 2 percent can have a considerably greater impact on areas and individuals with the least claim on resources."

This explains the unprecedented rash of worker strikes and slowdowns that have occurred recently. Most of these protests were over food shortages.

Recent accounts in other major U.S. publications confirm that the grain sale suspension is accomplishing its goals Here are some examples:

U.S. News & World Report--"...the (worker) strikes have drawn unwelcome attention to acute shortages throughout Russia of meat and dairy products. Supplies are dwindling because of a poor harvest, a cutback on U.S. wheat exports to Russia and feed scarcities that led to the premature slaughtering of cattle, poultry, and other animals this year. Further depleting stocks are food shipments to Afghanistan, Vietnam and other countries where Russia is busy establishing a presence."

Newsweek--"...as the reports of worker protest suggest, the problem (of food shortages) this spring has been especially trying. Some have blamed it on government stockpiling to guarantee a bounty of goods for the Moscow Olympics. Others say that the U.S. embargo has cut into stocks of high-quality feed grains...for beef and dairy herds."

The Washington Post--"Never in the past decade has the prospect of widespread shortages of fresh meat and dairy products so darkened the horizon for Soviet consumers this spring, when the American grain embargo looms in the mind of millions."

The Atlantic--"It appears that the Russians would manage to scrape up additional grain from other sources--but certainly not enough to make up the deficit."

What is more, the Russians had to pay premium prices for some of the grain they were able to make up through other exporting nations, and because much of this substitute grain was delivered in ships considerably smaller than the large bulk carriers we employ, this has created severe congestion in Soviet ports.

In sum, as Fortune magazine noted, "We apparently startled the Russians. We proved we deplored their actions enough to inflict economic wounds on ourselves in order to wound them."

The Impact at Home

We did inflict economic wounds on ourselves, but they were not at all as grievous as the critics of the grain sale suspension would have us believe.

The resolution before the Governors' Association contends that the suspension depressed farm prices, cost the taxpayers billions of dollars and jeopardized future sales of agricultural commodities.

But did the grain sale suspension depress farm prices this spring? Or were other, far more significant, factors at work?

It must be kept in mind that:

First, the Soviet Union has never been either a major or a reliable customer for our farm products. In 1979, for example, the Soviets bought only 6.5 percent of the total we sold abroad.

Second, we did not terminate all grain sales to the Soviets on January 4 of this year. We continued to supply them with the minimum guaranteed under our grain agreement with them.

Nevertheless, some contend that the grain that was withheld from the Soviets caused a downward pressure on the market and depressed U.S. farm prices. The facts argue, however, that if there was a price-depressing effect, it was for the most part psychological.

Consider those facts:

For the first time in the history of grain embargoes, an administration moved immediately to take the resulting excess grain off the market in order to stabilize prices. Indeed, the embargoes imposed by earlier administrations were not inspired by foreign policy or national security concerns but by concern that shrinking domestic supplies would mean higher consumer prices. On none of these earlier occasions was action taken to ease the impact on U.S. farmers.

This time, through direct government purchases of wheat and corn and additional incentives to farmers to store more grain in the reserve, more grain was removed from the market than was originally scheduled for shipment to the Soviet Union.

This administration also moved to assume the cancelled sales contracts grain companies had with the Soviets. Had the federal government not assumed those contracts, exporters would have taken

enormous losses or even faced bankruptcy. Moreover, as Fortune magazine noted, those exporters "would have had to cancel the contracts they had with their suppliers, or dump their long positions, or both -- all of which would have driven prices into the ground and caused a cascading series of bankruptcies clear back to the farm country."

Meanwhile, the administration increased already intensive efforts to build overseas markets for our farm products. Because of this, we were able to move more of our products to Mexico and Brazil, for example, and to sell more to traditional customers of Argentina when Argentina shorted them in order to meet increased Soviet purchase demands. In short, our farm product exports this year will set another all-time record by dollar and by volume. Despite the loss of part of our sales to the Soviets, we now expect to sell at least $6 billion more this year than we did last year, raising export earnings to $39 billion.

Why Farm Prices Declined

Nevertheless, U.S. farm prices did slump some this spring. The question is why, and the answer is this:

Grain prices fell because of record levels of production, tight credit, transportation problems and the psychological impact, if any, of the sales suspension.

Other farm prices fell because of the overproduction of hogs and soybeans, heavy supplies of pork and poultry that undercut the demand for beef, high interest rates that discouraged inventory buying, and the impact on other commodity prices when the silver market collapsed.

It must be said, too, that it took some time for administration actions to offset the impact of the grain sale suspension to be put into effect and to yield results.

Today's Grain Prices

The stabilizing impact of these actions is now being felt. Based on the average of the top four cash wheat markets in the U.S. -- Kansas City, Minneapolis, Chicago, and Portland -- the July 31st closing price was 22 cents per bushel higher than the same average on January 4 this year ($4.44 vs. $4.22). In fact, for the entire month of July the average price has been at or above the January 4th level.

The same is true for corn. The average of the top five cash corn markets in the U.S. -- Omaha, Des Moines, St. Louis, Chicago, and

Minneapolis -- was 64 cents a bushel higher than on January 4th this year ($3.11 vs. $2.47).

On the Chicago cash market, soybeans were selling for 97 cents a bushel more July 30th than they were January 4th.

The offset actions taken by the administration to stabilize prices after the grain sale suspension was invoked have been effective. But it must be said that recent grain price increases have been due to concern over crop-loss weather, just as most of the slump in corn and soybean prices that began six months before the grain sale suspension were inspired by extremely favorable weather that promised bumper crops.

Cost to the Taxpayes

The actions the administration took to ease the grain sale suspension's burden on American farmers were not without costs, but those costs must be kept in perspective.

Half or more of the $2.5 billion to $3 billion the government spent to assume the contractual obligations of exporters, to buy up the grain, and to encourage farmers to store more grain in the reserve will come back to the government when crop loans are repaid.

This means that in taxpayer terms it cost the people of our country approximately $7 each to show the Soviet Union it could not brutalize its neighbor without paying a penalty.

Will the Suspension Jeopardize Future Sales?

The resolution before the Governors' Association contends that agricultural embargoes jeopardize future sales of agricultural products, implying that this is the case with the current sales suspension.

But has the suspension jeopardized future sales? Again, the facts argue otherwise. Not only will U.S. farm exports set another all-time record in 1980, but we've tripled our trade with Mexico in just one year, and since the start of the suspension, we've increased our exports of corn to Japan by nearly 30 percent and to Italy by nearly 40 percent. Even more to the point, last month the Soviet Union itself placed its first order for U.S. corn and wheat under the continuing minimum guaranty terms of the fifth year of the U.S.-USSR grain agreement.

It thus seems obvious that our overseas customers know they can continue to rely on us as a steady supplier.

Drawing the Line

And now in closing let me add these thoughts:

When the Soviets launched their brutal invasion of Afghanistan, the Administration had three options: ignore the act, thus giving tacit consent to aggression; intervene militarily, which could have led to all-out war; or rebuke and punish the Soviets by imposing sanctions that would include a partial suspension of grain sales.

To end the grain sales suspension just at the time when its impact on the Soviet Union is being felt the most (and when its impact at home has been relieved) would demean us as a people, compromise the integrity of our foreign policy and in time risk our national security.

Lifting the suspension before the Soviets even begin to recant would be viewed by the Kremlin as clear evidence of American greed or weakness of will. Lenin, it must be remembered, once said that capitalists would even sell Communists the rope with which to hang them.

By the same token, demanding "action to prevent future interference with private sales of agricultural products to customers located in foreign countries" surely would be interpreted as a sign that we will continue to do business as usual with any overseas customer, no matter how that customer might violate international law or human rights.

Were we to adopt that position, we would not only severely handicap foreign policy making, we would betray our historic commitment to the cause of freedom.

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USDA AND FDA REPROPOSE NET WEIGHT LABELING REGULATIONS

WASHINGTON, Aug. 4--The U.S. Department of Agriculture and the Food and Drug Administration of the Department of Health and Human Services are proposing to modify their net weight labeling regulations to precisely define just how much the weight of a packaged food may vary from the weight listed on the label.

"We are aiming for regulations that will result in accurate statements about the contents of containers," said Carol Tucker Foreman, assistant secretary of agriculture for food and consumer services.

"The lack of precise federal regulatory guidelines has made it difficult for state and local authorities to determine if net weight declarations are accurate at retail," she said.

Jere E. Goyan, FDA commissioner, said, "The defining of what variations are allowed should benefit consumers and producers alike."

The USDA proposal defines net weight as the total weight of the package and contents minus the weight of the packaging materials. USDA has not determined whether to include liquid absorbed by the packaging in the net weight, Foreman said.

"We particularly want public comment on the liquid issue," she said. "We will decide after reviewing the comments."

"Reasonable variations" from stated net weight have been permitted since Congress used the phrase in a 1913 amendment which recognized the practical impossibility of packaging to exact weights, Foreman said. However, the current regulations do not define "reasonable variation." The new proposal would replace the undefined standard with objective, quantifiable standards. Compliance would be based on the weight of a specified number of samples taken from each production lot.

For example, if the total weight of 10 random-size containers from a lot of 250 containers equaled or exceeded the total of the labeled weights, the lot would be in compliance, she said.

The proposal would allow single packages within the lot to be underweight because of recognized, unavoidable variations that occur during manufacture. However, the proposal sets a limit to the amount

any single package could be underweight.

Besides defining "reasonable variations" for the food under its jurisdiction, FDA is proposing to allow for weight losses as a result of lost moisture in selected food for which there are data. Frozen fruits and vegetables packed in cartons could lose up to 1.0 percent of their weight due to moisture loss, soft ripened cheese would be allowed up to 3 percent and flour packaged in Kraft paper would be permitted up to 4 percent.

Food processors or associations may submit data justifying moisture losses for other food products to FDA.

Hermetically sealed containers cannot always be used to reduce moisture loss, Goyan said. Some packaged commodities need to "breathe." Flour and rice, for example, deteriorate more quickly when stored in airtight containers, he said. Certain cheese must be packaged to allow continued aerobic curing and moisture must be allowed to escape from many baked goods to prevent foods from becoming soggy.

The USDA proposal takes into account the thousands of consumer and industry comments on two previous USDA proposals, Foreman said. A majority of the comments opposed the earlier proposed changes.

"Significant new data obtained since our 1977 proposal has given us reason for publishing a new proposal," said Foreman. "The present proposal takes into account the comments and studies, our consultations with other federal and state agencies, comparisons with other net weight systems, and USDA's own impact analysis.

"The National Advisory Committee on Meat and Poultry Inspection also reviewed the proposal," she said. "We believe the proposal remedies the shortcomings of the previous proposals while providing state and local agencies with a clear, enforceable standard."

The net weight standard proposed in 1977 -- known as the drained weight system -- would have excluded dry packaging material, liquid absorbed by the packaging, as well as free liquid that had drained from the product.

"Our previous proposal called for the drained weight system because many consumers believed they were paying for liquid," Foreman said. "However, a study by USDA Economics, Statistics and Cooperatives Service showed prices in the marketplace are adjusted downward to reflect the liquid that is included. Therefore, a drained weight system might not provide the savings to consumers we thought it would, but

we'll still take comments on the value of this system."

The new proposal applies not only to consumer-size packages, but also to the containers of bulk products intended for further processing and packaging. The allowable variations for bulk packages are defined in the proposal.

Comments on the USDA proposal should be sent to: regulations coordination division, room 2637-S, USDA, FSQS, Washington, D.C., 2025O Comments on the FDA proposal should be sent to: office of the hearing clerk (HFA305), FDA, room 462, 5600 Fishers Lane, Rockville, Md., 20857. Comments are due by Nov. 6.

USDA's Food Safety and Quality Service is responsible for accurate labeling of federally inspected meat and poultry products under the Federal Meat Inspection Act and the Poultry Products Inspection Act. The Food and Drug Administration is responsible for the labeling of all other foods under the Food Drug and Cosmetic Act.

Both proposals will be published in the Aug. 8 Federal Register, available at local libraries.

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CCC REJECTS ALL BIDS TO SELL CORN; WITHDRAWS PURCHASE OFFER

WASHINGTON, Aug. 6--The Commodity Credit Corporation has rejected all bids made to sell it corn under the latest purchase announcement and has canceled any future corn purchases under its Jan. 22 purchase invitation, Secretary of Agriculture Bob Bergland said today.

As of June 24, CCC had purchased 159.7 million bushels (4,057,371 metric tons) of corn, Bergland said.

The special purchase program was part of the overall continuing effort to isolate from the market a quantity of corn equal to that suspended from shipment to the Soviet Union under a presidential directive issued Jan. 4.

With a strengthening corn market there had been little incentive to sell to the CCC when better prices could be expected on the open market, Bergland said.

Also, on July 31, CCC completed its sale of corn contract rights that had been acquired as a result of the suspension of exports to the Soviet Union. This corn contract retendering process had been completed with no apparent adverse impact on market prices, Bergland said.

Therefore, current purchase plans for corn have been fulfilled and the purchase invitation from the Kansas City Commodity Office has been cancelled.

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COMMODITY STOCKS, DISASTER PROGRAMS MINIMIZE OVERALL WEATHER IMPACT [1,2,3],

WASHINGTON, Aug.1--The U.S. Department of Agriculture's chief economnist today said the grain that farmers had placed in reserve from the abnormally large 1979 crops will prove to be a "very good investment," both to them and to those who depend upon them for grain.

Howard W. Hjort, USDA director of economics, policy analysis and budget, said: "The drought and high temperatures have affected crop and livestock production prospects and stimulated crop prices. And while grain prices will have to rise from current levels to bring grain out of the farmer-owned reserves, the quantities in reserve are enough to offset reduced 1980 crop prospects, and to meet growing domestic and foreign needs."

Hjort, in releasing an interim assessment of the drought situation, prepared at the request of Sen. Herman Talmadge, said producers in areas where production prospects have not been significantly affected will benefit from the higher prices, "but producers in drought areas will be hurt even though disaster assistance programs are being used to help offset their most serious losses."

Hjort said the overall effect of the hot, dry conditions on consumers will not be great in 1980. He said that while farm prices are up and food prices will be climbing at a much faster rate during the last half of 1980 and into 1981, the effects of the drought and heat on food prices have been modest.

Hjort noted that rains and cooler temperatures through the Great Plains and Corn Belt the past several days have brought considerable relief and could indicate a change in the overall weather pattern. "Though we already expect somewhat lower crop yields, because of the heat and dryness," Hjort said, "conditions as of Aug. 1 will not be reported until Aug. 11.

"Even if conditions worsen in early August," Hjort said, "our large stocks of grain ensure us that we will be able to meet both domestic and foreign needs in 1980/81. Our projected carry over of corn for the

end of 1979/80 is 1.7 billion bushels, more than 20 percent of our expected domestic and export usage, with over half of that carry over in the farmer-owned reserve."

Hjort added that USDA is still predicting a record wheat crop for 1980, despite the poor weather. "Oilseed production will be down from last year and supplies will be less plentiful than in 1979-80," Hjort said.

The heat has caused several million broiler deaths and is prompting some producers to send more cattle to slaughter at this time than they previously had planned, according to Hjort. The slightly lower broiler supplies will be offset by larger beef supplies, leaving total third quarter meat supplies about the same as had been expected prior to the drought. "The effects of those changes in retail prices should about cancel each other out," Hjort said.

"Farm prices for livestock and retail prices for meat will rise in the second half of 1980, however," Hjort said, "because poor returns to livestock producers in the latter half of 1979 and first half of 1980 signaled them to begin the production cutbacks that we were already anticipating for the remainder of this year.

"USDA's projection of a food price rise for all of 1980 remains unchanged at 8-9 percent," Hjort said. "The most rapid advance will be in the third quarter when prices will rise at a 10-12 percent annual rate because of seasonally higher meat and produce prices. Food price increases in the fourth quarter should slow to around the 7-1/2 percent annual rate of the first half of 1980." Hjort said prices for nonfood items rose at a yearly pace just under 16 percent during the first half of 1980.

According to Hjort, the impact of the drought and heat on farmers will be cushioned by their participation in a number of USDA emergency programs. As of July 30, 561 counties had been declared elegible for low-interest drought-emergency loans and 370 counties had been made eligible for emergency feed programs. Farmers in many drought-affected areas are also applying for disaster payments related to inability to plant crops or the expectation of low yields.

The assessment will be updated as conditions warrant. A limited number of copies of the report, "The Effect of the Drought and High Temperatures on U.S. Agriculture: An Interim Assessment," are available by writing to the World Food Board, Room 3509-S, USDA, Washington, D.C., 20250. Zip code must be provided.

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OLD AGREEMENT WHEAT IN FARMER-OWNED RESERVE CONTINUES IN RELEASE STATUS

WASHINGTON, Aug. 6--Producers may continue to redeem "old agreement" wheat from the farmer-owned grain reserve without penalty as the national average market price for the commodity is $3.86 per bushel. This is 36 cents above the July 31 reserve release level, according to Ray Fitzgerald, executive vice president of the U.S. Department of Agriculture's Commodity Credit Corporation.

Old agreement wheat is wheat entered into the reserve before Jan. 7, 1980.

Fitzgerald said farmers may sell their reserve wheat after repaying their CCC price support loans. Release of the reserve does not require farmers to redeem or sell their grain at this time, he said.

Farmers with farm-stored reserve grain must request a release from the county office of the U.S. Department of Agriculture Agricultural Stabilization and Conservaifon Service before removing the grain for sale.

The $3.50 price level at which old agreement wheat is released from the reserve is based on 140 percent of the $2.50-per-bushel national loan rate for wheat in effect July 31.

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